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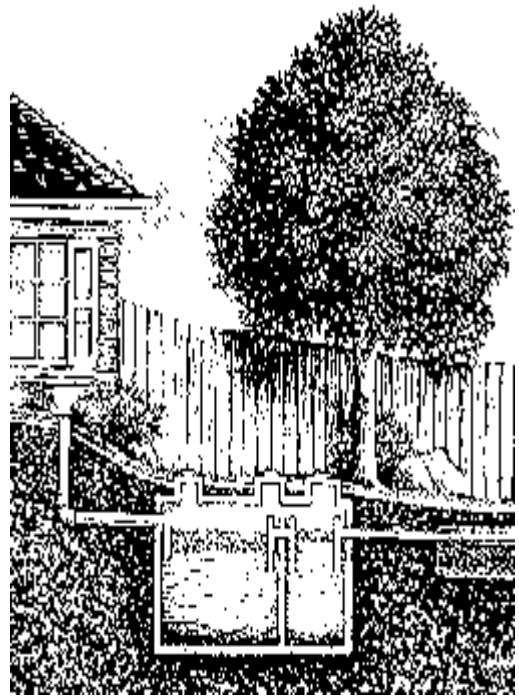
## **Local Loan Programs**

for

### **On-Site Sewer System Repair and Replacement**

using the

### **Washington State Water Pollution Control Revolving Fund**



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# Funding On-Site Sewer System Repairs through the Washington State Water Pollution Control Revolving Fund

Since 1990 ten counties in Washington have used the Washington State Water Pollution Control Revolving Fund (SRF) low interest loan program to create local loan programs to help residents and small businesses pay for needed repairs and upgrades of faulty on-site sewer systems. Most local loan programs are administered by local health jurisdictions, who apply for loan funding through the Department of Ecology's Water Quality Financial Assistance Program. The SRF has provided \$5.5 million to replace over 360 septic systems in Washington through January 2001.

In counties with local loan programs residents have a financial option for dealing with failed on-site sewer systems. Rather than face enforcement action or the possibility of having to move out of their home or close shop, residents and small businesses may qualify for a low interest loan from their local government to help defray the repair costs on their wastewater system. Terms vary between programs; individual loan terms range from three to 20 years, and interest rates range from zero to six percent.

## Why the SRF

### Identifying Problems

Approximately 15 percent of Washington's 650,000 on-site sewer systems do not properly treat wastewater discharge. Many of these on-site systems were installed before state minimum standards were adopted in 1974. Nearly 100,000 on-site sewer systems are releasing inadequately treated sewage and wastewater into our surface and ground waters, consequently damaging valuable watershed areas.

*The United States Congress established the SRF program as part of the Clean Water Act Amendments of 1987.*

*The Washington State Legislature passed a statute in 1988 (Ch. 90.50A RCW) which created the state's SRF Program.*

Sanitary surveys reveal some common factors in on-site system failures. These include poor soils, obsolete design or construction, and poor operation and maintenance by owner/operators.

On-site system failures pose a potential health hazard because domestic wastewater can contain bacteria, viruses, protozoa and parasites harmful to people. Typhoid fever, gastrointestinal infections and infectious hepatitis have been linked to failing on-site systems around the country. These failures threaten entire watersheds, affecting groundwater, streams, lakes and estuaries.

*The Washington State Department of Health reports that 80 % of shellfish bed closures are due to pollution caused by failing septic systems.*

On-site system failure threatens Washington's drinking water supply, which primarily comes from groundwater. Our endangered salmon populations suffer even more damage when septic systems allow contaminants to enter waterways. Washington's \$70 million per year shellfish industry also suffers when on-site systems fail. Since 1981 over 46,000 acres of shellfish beds have been downgraded due to pollution. The state Department of Health (DOH) identified on-site system failures as a contributing factor in 80 percent of shellfish bed downgrades.

## Creating Solutions

The Washington State Department of Ecology's Water Quality Program administers financial assistance for on-site sewer system repairs and upgrades through the SRF. The SRF provides low interest loans to public entities, which include local governments, tribes and conservation districts, to finance local assistance programs. These local assistance programs provide loan assistance to residents with failing on-site sewer systems.

In Stream Pollution Sources per 1998 305b Report	
Pollution Source	% of Polluted Streams Affected
Agriculture	55
Habitat Alteration	31
Natural Conditions	19
<b>On-Site Sewer Systems</b>	<b>17</b>
Municipal Wastewater	13
Stormwater	10
Mining	10

Unlike grants, SRF loans do not require public entities to provide money up front in order to create a local fund for on-site system repair. Because of the low interest rate of most SRF loans (0-5 year term, ½ %, 6-20 year term, 1 ½ %), local assistance programs can cover administrative costs with the interest they charge individual borrowers (typically 3-4 %). Interest rates for the individual borrower are typically better than market rates, making repairs and upgrades more affordable for residents.

Through January 2001, \$5.5 million has been loaned to local agencies to fund on-site sewer system repairs. And as loans are repaid, collected principal and interest payments can be used to fund future SRF loans.

## Structured For Sustainability

The SRF is made possible through capitalization grants to the state of Washington from the U.S. Environmental Protection Agency (EPA). Ecology's Water Quality Program administers the SRF and uses the EPA grant, 20 percent matching funds from the state, and principal and interest repayments from previous SRF loan recipients to fund each lending cycle. Any public entity in Washington, including cities, towns, counties, tribes and conservation districts, may apply for SRF funding.

### ***Loans vs. Grants***

*While grants are often looked to as sources of free money, low interest loans provide a more cost effective, sustainable solution for implementing water quality projects.*

*Grants generally require the funding applicant to match 25 %, and sometimes 50%, of the grant award. A local body seeking assistance to fund a \$500,000 facility or activity may need to come up with \$125,000 or \$250,000 in matching funds simply to get the project off the ground.*

*Low interest loans through the SRF provide money for projects without requiring local bodies to provide matching funds. Interest rates between ½ % and 1 ½ % create affordable re-payment options and allow the costs of a project to be spread over several years.*

*Local loan programs can also be created with SRF awards to create a perpetual source of funds for water quality projects such as septic system repair. SRF awards create sustainable solutions for water quality; as loan principal is repaid to Ecology, those funds become available for future SRF awards.*

# Obtaining an SRF Award

## The Application Cycle

Public entities interested in receiving SRF funding for on-site septic system repair use the *Water Quality Financial Assistance Application*. The SRF, Centennial Clean Water Fund, and the federal Section 319 Non-point Source Grants share this application process and funding cycle. The innovative, streamlined approach allows the Water Quality Program to ensure that local agencies receive the most appropriate source of funding for their projects.

Applications are accepted during January and February of each year. Awards are made in early August.

Applications are available at Ecology's annual funding workshops, normally held in early January, or from:

Department of Ecology  
Water Quality Program  
Box 47600  
Olympia, WA 98504

(360) 407-6502  
(360) 407-6006 (TDD)  
or online at:  
<http://www.ecy.wa.gov/programs/wq/funding>

## Evaluation Criteria

Applications are reviewed by Ecology and evaluated on the following merits:

- The specific water quality impairments being addressed by the proposed project 340 points
- How the proposed project will improve the water quality problem, and how project success will be measured 340 points
- Local comprehensive planning and monitoring efforts, and completion of project prerequisites 120 points
- State of Washington and/or federal mandates addressed by the proposed project 100 points
- Local Priority Ranking, as indicated on the *Statement of Agreed Priority*, for the applicant's Watershed Resource Inventory Area (WRIA). 100 points

### ***Local Priority Setting Process***

*Local Priority Setting allows Ecology to respect the individual needs of regions throughout the state while rewarding regions that take an active role in addressing water quality needs.*

*Each WRIA will evaluate and rank applications for projects within its boundaries.*

*Final rankings for each WRIA are presented in the Statement of Agreed Priority.*

*Please see Ecology's Funding Guidelines, Volume 1 for more information on local priority setting.*

Several specific criteria must be met for an SRF loan application to be approved. The public entity applying for the loan must be in compliance with the Growth Management Act (GMA). An exception may be made if there is a pressing public health need or substantial environmental degradation, declared by the state Department of Health or Department of Ecology respectively. Complete guidelines and details can be found in the Department of Ecology's publication, *Funding Guidelines Volumes 1 & 2*, available with applications. Ecology staff encourages that SRF applicants be familiar with these limitations and guidelines. Projects not meeting criteria will not be eligible for funding.

### ***Application Tips***

- *Read and follow the directions and tips on the Water Quality Financial Assistance Application*
- *Answer questions with concise, accurate detail*
- *Label answers to clearly correspond with application questions*
- *Number pages for easy reference*
- *Take care when photocopying completed application that each page is reproduced clearly and completely*
- *Assume an active role in the Local Priority Setting Process*

## **Other Considerations**

Applicants should also consider how they plan to market their individual loan program to residents in need of assistance. In the past, local loan programs have provided information to residents during on-site inspections, as part of the permit issuance process, through brochures and public service announcements, and through the local media. Some programs have also provided information to local septic system contractors, who in turn can inform potential customers that financial assistance is available if needed.

## **SRF Generated Results**

Local on-site system loan programs have been very successful. Through January 2001, Ecology has distributed \$5.5 million in loans to local governments. This money has funded the repair or replacement of over 360 septic systems in 10 Washington counties.

Some counties are already on their fourth round of funding from Ecology. In Skagit County the local loan program has already provided \$1.2 million to residents, funding repairs to 119 aging on-site systems. Coupled with the success of other Skagit County programs, such as the Small Towns Environmental Program and Shellfish grants, the Skagit County Local Loan fund has helped reduce nonpoint source pollution and facilitated the re-opening of shellfish beds in Samish and Skagit Bays.

Island and San Juan Counties, which feature poor soils for septic systems, have had similar success with their local loan programs. Residents of these counties, many of whom are elderly, have no alternative to on-site wastewater treatment. Many low-income and fixed-income residents have been able to upgrade their septic systems thanks to local loan programs.

## **SRF Awards and Local Loans Through 2000, by County**

<b>County</b>	<b>SRF Awards, \$</b>	<b>Repairs/Loans</b>
Skagit	1,550,000	119
Thurston	700,000	34
Island	475,000	28
San Juan	550,000	41
Jefferson	300,000	24
Lewis	250,000	6
Mason	250,000	25
Clallam	425,000	48
Kitsap	600,000	36
Klickitat	225,000	Program in development

### **The Big Picture**

Local loan programs are not a complete solution to the problem of polluted waterways. But on-site system failure represents a significant source of water quality degradation in Washington, and local loan programs have provided the means to eliminate several hundred faulty on-site systems to date. As loans are repaid, more money becomes available to finance future repairs.

### **Enforcement Tool**

Local health officials that permit and inspect on-site systems stress the importance of a local loan program as an enforcement tool. When sewage backs into a home as a result of a failed drainfield, the homeowner faces expensive repairs and the possibility of having to move out until the repairs are complete. Health officials do not want to play the limited role of enforcer; they want to be able to present homeowners with many financial and technical options in order to correct the problem at hand and ensure that all residents have a clean and healthy place to live or work.

Homeowners often choose to finance on-site system repairs through a home equity loan, sometimes because they want to finance other home improvements at the same time as on-site system repairs. While many residents will ultimately not choose to take advantage of a local loan program, health officials agree that the availability of a loan program often signals to homeowners that the county is interested in helping people with their septic problems.

### **Marketing Local Loan Programs**

While a local loan program cannot function if the public is not aware of its presence, traditional attempts to market these programs, such as radio and newspaper advertisements, have met with minimal success. Though many counties now promote education and awareness of on-site system care and maintenance, many residents do not consider replacing an on-site system until a failure occurs. Health officials report that most loan program participants took out their loan as a result of an enforcement action.

Counties with successful programs for septic repair report that their loan program is well integrated into a comprehensive plan to manage on-site septic systems throughout the county. In these counties the loan program is promoted at local workshops for on-site sewer system maintenance, and all area designers and installers of on-site systems are made aware of the program so that they may inform potential clients of financing options. Most on-site system designers and contractors recognize that these loan programs bring in more business, and these contractors are happy to help promote the local loan program.

### Flexibility of Individual Programs

Local loan programs are flexible in nature; SRF award recipients can tailor their local loan program to fit the needs of residents while structuring the program into existing water quality management efforts.

In lieu of interest, some local loan programs charge a small fee to cover administrative costs such as title searches and credit checks. Other programs vary the interest charged to individual borrowers based on the interest rate tied to the SRF award. Some programs allow flexible loan terms, up to 20 years, while other programs require individual loans be repaid within three years. Three successful programs are detailed below:

Skagit County	Island County	Thurston County
Local loan fund for on-site system repair administered by Skagit County Treasurer and Skagit County Permit and Planning.	Local loan fund for on-site system repair administered by Island County Health Department and a local bank.	Local loan fund for on-site system repair administered by Thurston County Public Health and Social Services.
Terms: 5, 10, or 15 years 1 - 2 %	Terms: 3 years, 0%	Terms: 10 – 20 years 6.5% (0-2 % if hardship)
Fees: \$82 Title fee to Skagit County Treasurer	Fees: \$50 Treasurer fee, \$25 Auditor fee, \$120 Bank fee	Fees: none
Average Loan: \$9,500	Average Loan: \$7,500	Average Loan: \$8,500
Security: Deed of Trust	Security: Deed of Trust	Security: Deed of Trust
Marketing: Through county <i>Septics 101</i> workshops, local media ads, word of mouth promotion by local septic system designers and installers, and during permit and inspection process.	Marketing: Through the local health department's <i>Septic Maintenance</i> workshops, word of mouth promotion by local septic system designers and installers, and during the inspection/enforcement process.	Marketing: As part of enforcement, letters to local banks, letters to local on-site system installers, promotion at local workshops on on-site system maintenance.
Coupled with a shellfish grant program and Ecology's Small Towns Environment Program, Skagit County has been able to present residents several financial options for dealing with on-site septic system failure.	The Island County Health Department feels that its local loan program greatly aids the enforcement process, allowing the county to help residents with failing on-site systems while preserving the health of the environment and residents.	Thurston County is happy to be able to provide options to residents during the enforcement process.

## Local Loan Program Contacts by County

County	Agency	Phone
Skagit	Skagit County Permit and Planning	(360) 336-9410
Thurston	Thurston County Public Health Dept.	(360) 786-5490
Island	Island County Health Dept.	(360) 679-7350
San Juan	San Juan County Health & Community Services	(360) 378-4474
Jefferson	Jefferson County Health & Human Services	(360) 385-9444
Kitsap	Bremerton-Kitsap County Health District	(360) 337-5285
Klickitat	Klickitat County	(509) 773-4565

For applications, *Guidelines* or other information, please contact Ecology's Water Quality Program at (360) 407-6400 or (360) 407-6006 (TDD), or visit us on-line at:

<http://www.ecy.wa.gov/programs/wq/funding>

*Ecology is an equal opportunity agency. If you have special accommodation needs, please call Donna Lynch at (360) 407-7529 (Voice) or (360) 407-6006 (TDD). E-mail may be sent to [dlyn461@ecy.wa.gov](mailto:dlyn461@ecy.wa.gov)*



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